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SENSITIVE
SIPDIS

DOE FOR SECRETARY CHU, DAVID SANDALOW, JON ELKIND
DEPARTMENT FOR NEA/ARP
DEPARTMENT FOR S/CIEA DAVID GOLDWYN

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TAGS: [EPET](#) [ENRG](#) [KGHG](#) [EINV](#) [ECON](#) [PREL](#) [SA](#)

SUBJECT: SCENESETTER FOR FEBRUARY 21-23 VISIT OF ENERGY
SECRETARY CHU TO SAUDI ARABIA

11. (SBU) Summary and introduction: Saudi officials are very excited about your visit, which they expect will build on the successful December visit of Deputy Secretary Poneman to write a new chapter in our bilateral dialogue on energy and Science & Technology Cooperation. You will arrive at a time when the Kingdom of Saudi Arabia is going through multiple transitions, from the geopolitical, where its trade and energy relations are shifting from west to east, to economic, where Saudi leaders feel enormous pressure to diversify the economy quickly. While many of these changes present opportunities for engagement to advance U.S. interests, some are deeply unsettling to a conservative society. Saudi leaders will be keenly interested in your views of what role the U.S. sees Saudi Arabia's playing in the U.S. and international energy markets in 20 years. They are concerned that the drive to promote non-traditional and green forms of energy is likely to restrict the available share of what has historically been Saudi Arabia's most politically important market. Saudi Officials, for example, have noted that the U.S. consumed more domestically produced ethanol in 2009 than it imported Saudi oil. At the same time, Saudi leaders are interested in pursuing cooperation on renewable energy, particularly solar, in part to meet booming domestic energy demand. Saudi officials will also encourage greater U.S. investment, particularly in key industries in their national industrialization strategy, which aims to make better use of Saudi Arabia's natural resources to create the 200,000 jobs per year over the next decade they need to keep unemployment steady. Saudi officials are also keen to expand our Science & Technology dialogue, which they see as a critical driver of diversification. They are very excited to show you the two leading S&T facilities, the King Abdullah University for Science and Technology (KAUST) in Jeddah, and the King Abdulaziz City for Science and Technology (KACST), which is the main S&T policy body in Saudi Arabia.

12. (SBU) Your visit offers the opportunity to put these issues into a coherent framework that underscores the strategic importance we place in seeing Saudi Arabia succeed in the King's economic vision, particularly in diversifying its economy, which will bring with it important social changes. We need their help, however, in better channeling our dialogue and establishing clear links between our interest in promoting greater U.S. trade and investment, science and technology partnerships and broader energy policy. Specifically, it is important to find ways to turn our mutual interest in promoting solar and biomass projects into a constructive relationship to advance the Copenhagen process. We are hoping that your discussions will alter the tone of the dialogue and get us beyond the obstructionist positions held by Saudi negotiators in the UNFCCC process. End Summary and Introduction.

Schedule:

13. (SBU) In Riyadh, you will first meet with your host, Petroleum Minister Ali Al-Naimi, and his staff, who are particularly interested in using your visit to advance our bilateral energy dialogue. You will also meet with the Minister of Electricity and the President of the King Abdulaziz City for Science and Technology (KACST), before a meeting with the King at his desert encampment. Minister Al-Naimi will also host a dinner for you, giving you a chance to meet a number of other important government officials and businessmen. We have arranged a public address at the International Energy Forum (IEF). Minister Al-Naimi will accompany you and your delegation to Jeddah to visit the King Abdullah University for Science and Technology (KAUST), where he will arrange for you to meet with the university's top scientists pursuing solar and biomass energy projects.

Need for Economic Transformation:

14. (SBU) Saudi leaders are concerned about the ability to provide productive employment for the fifty percent of the population that is under 20 years old. Saudi Arabia is convinced that the only sustainable way to do that is to develop its human capital, such that Saudis become as economically valuable as their oil exports. This will require trillions of dollars in investments to build the necessary infrastructure over the next two decades. Saudi leaders are concerned the world will turn away from oil just as it embarks on this program. The King has sketched out an

ambitious plan to transform Saudi Arabia's economy away from excessive reliance on hydrocarbons and towards a knowledge based economy that can provide sustainable development for the long-term. This requires significant changes in the education system and several aspects of Saudi society. Saudi leaders are already alarmed by the relative decline in per capita income standards, as an increasing population lowers average income. They also are very aware of a long-term shift in the international oil market away from the OECD towards Asia, which implies political shifts as well. They also are very sensitive to any perceived bias against oil versus other forms of energy, such as coal. Approximately 45% of GDP is derived from oil, and more than 80% of government revenue. Past Saudi efforts to diversify have largely revolved around using cheap natural gas feedstocks to support petrochemicals such as plastics and packaging materials. Saudi Arabian officials now regard those approaches as insufficient, as they have not created significant numbers of jobs for Saudis. They believe moving up the value chain by using feedstocks to foster industry here will better assist Saudi Arabia's development.

Concerns about Future Energy Demand:

15. (SBU) Saudi Arabia was caught off guard by the strength of the Administration's initial statements about its desire to move to a post-hydrocarbon economy, and end dependence on imported oil, especially from the Persian Gulf. This comes just as Saudi Arabia is completing a \$100 billion expansion of its production capacity to 12.5 million barrels a day. Saudi leaders are concerned that this oil may never be needed (the capacity does not last long if shut off), as demand falls in the West and countries like Iraq plan to increase production by 6 - 7 million barrels over the next five to ten years. Effectively, peak oil arguments have been replaced by peak demand. Saudi Arabia will be interested in your view of the energy future, both globally and in the U.S. They are less concerned about price forecasts than our expectations of the scope and pace of changes globally. They are also very keen to hear what role the U.S. foresees Saudi Arabia playing in our domestic market, answering the question whether Saudi Arabia will be welcome. Al-Naimi will present you with their

future oil outlook and invite a presentation on how the U.S. sees the development of energy efficiency, renewables and electric cars in the U.S. energy mix.

Portfolio without Minister:

16. (SBU) Your Saudi interlocutors will describe various activities to support solar energy, including advanced research into materials at KAUST and advanced solar cells in KACST. The Ministry of Electricity will explain their pressing need to meet 8-10% annual increases in domestic electricity demand, which, if left unchecked, will require it to double its electricity generation capacity from 34,000 MW to 68,000 MW by 2018. While there is broad agreement within the Saudi Government of the need to develop Saudi Arabia's significant potential for solar and other renewable forms of energy, no one ministry has yet been placed in charge of this portfolio. Al-Naimi is clearly pushing research into solar, but so is KACST, which signed an agreement in 2008 with IBM to develop solar nanotechnology and desalination projects that are now in the pilot stage. Both must work with the Ministry of Electricity and the Electricity Regulator (ECRA) to make it commercially feasible. You will want to draw them out on how they plan to address this issue. It is also worthwhile asking about nuclear energy, as Saudi Arabia is considering issuing a request for proposal to advise on how to set up a civilian nuclear program. We understand from a number of sources that the Saudi Government believes it needs to develop such a program as the only way to get ahead of the relentless increases in demand for electricity, and that it is beginning careful preparations to create the capacity to manage a nuclear program. Several potential suppliers, like Canada, France and Korea, are already pressing their case to help design Saudi Arabia's program and supply the plants.

Climate Change:

17. (SBU) CLIMATE CHANGE: Your visit offers an important opportunity to head off a serious clash over climate change. Saudi officials are very concerned that a climate change

treaty would significantly reduce their income just as they face significant costs to diversify their economy. We want to get beyond the obstructionism that Saudi negotiators have often shown during the UNFCCC negotiations and persuade senior leaders to work with us in a partnership to meet their strategic concerns. We are still analyzing where we think the Saudis are, but believe that they are pursuing this tactic to stall as a temporary measure until they get a better sense of where the negotiations are going and where their interests lie. While being obstructionist in some aspects of the UNFCCC, the SAG is keenly interested in developing Carbon Capture and Storage projects. Al-Naimi will brief you on Aramco's plans to develop a pilot project. He will also brief you on Saudi Arabia's involvement in the Carbon Sequestration Leadership Forum, and the 4 Kingdom's project (with Netherlands, UK and Norway), which is negotiating a framework to support projects to reduce emissions. Saudi Arabia would like to see this framework concluded more quickly, and is interested in inviting countries like the United States to join as a means of accelerating the development of real projects. To the extent that we are willing to work with Saudi Arabia on these kinds of projects, we can demonstrate that we understand their concerns and our interest in helping meet their long-term development goals.

18. (SBU) The King is particularly sensitive to avoid Saudi Arabia being singled out as the bad actor, particularly on environmental issues. Your conveying the importance the President places on working as partners with Saudi Arabia on the Copenhagen process will be very important in making this dialogue more constructive.

The Importance of Strong U.S. Economic Ties

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¶9. (SBU) Saudi officials have been candid in stressing the importance they place on strong ties with the United States to help them meet reform challenges, both through increased engagement at the government level, including educational exchanges and more FDI, particularly in energy, high tech, and manufacturing. The past year has seen several large investments by prominent U.S. firms in advanced technology areas, and we are working to raise the profile of our trade and investment relations, including through a major Saudi exposition in Chicago at the end of April. The Mission has also steadily expanded USG engagement in education, public health, science and technology, entrepreneurship and civil society. There are now more than 22,000 Saudi students studying in the US, exceeding pre-9/11 levels. Saudi officials are also very keen to expand educational ties to the U.S., including expanding a scholarship program that has already sent thousands of Saudi students to U.S. colleges and universities, many in scientific and technical fields. Al-Naimi will be interested in your thoughts on how we might boost scientific training and educational opportunities for Saudis in the U.S. Al-Naimi will also underscore the importance of greater U.S. investment, particularly to support the development of the National Industrialization Strategy.

S&T Umbrella Agreement:

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¶10. (SBU) In December 2008, the U.S. and Saudi Arabia signed an umbrella Science and Technology Agreement that outlined seven areas of interest. In May 2009, the two sides held a follow up meeting in Riyadh, and the first working group, on Space, met in Washington December 3-4. Shortly after this working group, Saudi Arabia and NASA signed a cooperative lunar research agreement. Al-Naimi and Minister of Electricity and Water Al-Hussayn will be interested in the potential for cooperation on a range of issues, such as increasing efficiency, demand management, policy and regulatory cooperation, new technologies and renewables. KACST is particularly interested in expanding cooperation between research institutes in the U.S. and Saudi Arabia on energy issues, and welcomes the opportunity to sign an MOU to do so. KAUST will brief you on their programs, particularly in solar and biomass.

International Energy Forum:

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¶11. (SBU) The International Energy Forum (IEF) has provided

an informal forum for oil producers and consumers to talk frankly for more than 20 years. At the December 2008 London energy meeting, the IEF was asked to prepare a report on the causes of oil price volatility and potential measures to deal with them, which will be considered at the next Energy Ministers' ministerial meeting in Cancun in March. Since October, eleven members of a high level steering group, including the U.S., have been reviewing that report, which also made recommendations on how the IEF could become more effective. On February 6-7, more than 40 participating countries indicated support for finding ways to make IEF a more effective arena for this informal producer-consumer dialogue about oil issues, including developing a charter for the organization over the next year. There was also broad consensus that it will be important to regularize financial support from participating countries for the IEF. Saudi Arabia is very appreciative of U.S. willingness to play a more active, constructive role, and welcomed Deputy Secretary Poneman's assurances last December that we would find ways to support the work of the experts' group that prepared these recommendations. You will deliver a public address at the IEF, joining a list of other international speakers such as Australia's Energy Minister and IEA's Chief Economist. The IEF is looking forward to your speech, which will provide a

tangible demonstration of ongoing U.S. willingness to participate in the IEF. This will be appreciated by Minister Al-Naimi and the King, both of whom support the IEF.

Political context:

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¶12. (SBU) You will have arrived just after a parade of other senior level USG visitors, including NSA General Jones, Secretary Clinton and Treasury Deputy Secretary Wolin. This demonstrates the breadth and importance of cooperation on a range of issues, from confronting Iranian nuclear proliferation to regional security issues in Yemen, Pakistan and Afghanistan, countering terror finance and supporting Middle East Peace. While we do not always agree, the Saudis greatly value consultations and honest dialogue with us, as Saudi Arabia places great value on a strong relationship with the U.S. We have come a long way in tearing down the walls both sides erected after 9/11 and building a new relationship. The scope of the improvement in relations since 2005 is remarkable, and makes incidents like the application of new TSA airline passenger regulations for Saudis somewhat jarring. Saudi officials will be particularly pleased to see you, as they want to boost the economic aspects of our strategic relationship.

¶13. (SBU) While a lot of attention gets paid to current crises, Saudi Arabia is also trying to come to terms with the shift in global energy and trade ties towards Asia, which has both political and economic consequences. Bilateral trade with China has more than tripled, and China will soon be Saudi Arabia's largest importer. Saudi Arabia has also committed significant investments in China, including the \$8 billion Fujian refinery. Increased trade has also brought increased friction, including anti-dumping complaints from both sides. Saudi Arabia is thinking through how best to take a leaf from the Chinese playbook and use these expanded trade ties to achieve important political goals, including cooperation on the issue of countering Iranian nuclear proliferation.

A NOTE ABOUT THE KING

¶14. (SBU) The Custodian of the Two Holy Mosques will offer you a traditional Saudi welcome at the desert "encampment" outside Riyadh, where he likes to spend his winter vacations.

You will find in 86-year old King Abdullah a wry and forthright interlocutor. Reflecting his Bedouin roots, he judges his counterparts on the basis of character, honesty, and trust. He expects commitments to be respected and sees actions, not words, as the true test of commitment; and he expects good-faith consultations, not surprises. The King's warm relations with President Obama have helped navigate differences and at times change policies.

SMITH